USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Voluntary Report - public distribution

Date: 6/12/2007

GAIN Report Number: CH7052

China, Peoples Republic of

Oilseeds and Products

China's Rapeseed Production Situation

2007

Approved by:
Mark Petry
U.S. Embassy

Prepared by:
Wu Xinping

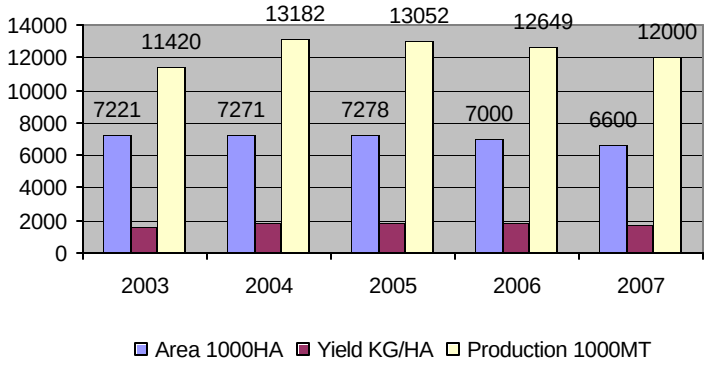
Report Highlights:
China's rapeseed production for marketing year (MY) 2007/08 is expected to continue falling to an estimated 11.6 million metric tons (MMT) due to low profits in recent years versus other crops. However, China's rapeseed production is expected to increase moderately in MY08/09. China's rapeseed processing industry hope a bio-diesel boom will boost rapeseed planting and are calling for more governmental assistance.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Beijing [CH1]
[CH]

Rapeseed production for MY07/08 to fall to 11.6 MMT

Preliminary forecasts of China's rapeseed production for MY07/08 are 11.6 MMT, down 0.4 MMT as compared with Post estimated production for MY06/07. This is 1.5 MMT smaller than the official MY05/06 production data published by China's National Statistics Bureau (NSB). The planted area fell in MY07/08 to 6.6 MHA, down six percent versus the previous year. The falling domestic production is mainly attributable to the low profit margin received by farmers in recent two years due to the bearish price for the oilseed products complex through late 2006. However, the lower MY07/08 production is currently buoying prices and is expected to result in a slight increase in MY08/09 planting.

NSB official rapeseed production for MY06/07 is reported at 12.6 MMT. China's National Grain and Oils Information Center (CNGIOC) reported that the MY06/07 production was 12.7 MMT based on a total planted area of 7 MHA, down by 2.7 percent and 3.8 percent, respectively, compared with MY05/06. CNGOIC's June Oilseeds News estimated that rapeseed production in MY07/08 is likely to fall to 12 MMT based on a lower planted area of 6.6 MHA.



Source: NSB Statistics Book and CNGOIC Oilseed News

Post's May rapeseed study tour of two central provinces, Hubei and Hunan (the largest and the fifth rapeseed producing provinces in China), supports information that the current crop is smaller than the previous year. The local agriculture officials also acknowledged the declining trend for rapeseed area in both provinces in recent years. Based on numerous sources, the continuing fall in planted area and production is attributable to the low profit received from rapeseed in both absolute terms and versus other crops. It is estimated that the gross profit of rapeseed planting stood at US$180 per HA in past two years. As the per household planted area ranges from 0.1 to 0.4 HA, the total gain from rapeseed production per household remained very limited. Many farmers opted to abandon winter crops or choose to work in cities, while others choose to plant winter wheat (grain crops are entitled to seed subsidies) for relatively better gains. Industry insiders reported that the situation is similar in other major producing provinces of Anhui, Jiangsu, Sichuan, and Chongqing. Instead of planting rapeseed in winter, farmers used land for vegetables or aquaculture production.

Rapeseed yield remained stagnant because farmers devoted fewer inputs to rapeseed production (less labor, fertilizer, plant protection, and agronomic practices). A senior rapeseed scientist complained that the advanced transplanting practice is being replaced with direct sowing by some farmers. Inadequate technical extension services are also blamed for bearish rapeseed production. Some researchers complain that some farmers still plant low yield and poor quality varieties, while expansion of new varieties remains difficult due to inadequate implementation of the seed law and new variety regulations.

Many industry insiders believe that the MY06/07 production was smaller than NSB data and the MY07/08 production is expected to decline further. As of this report, the MY07/08 crop harvest is ending in all areas. The farm-gate price for rapeseed started relatively high and continued growing to between RMB 3.5 (in Hubei, Hunan and Guizhou) to 4 Yuan per KG in (Sichuan, Jiangsu). These price levels are on average more than 50 percent above the previous year. According to industry sources, the high price for rapeseed products are likely to remain as domestic production is expected to be small and import prices of rapeseed and palm oil also remain high. China's rapeseed production is expected to increase moderately in MY08/09, driven by an ongoing fundamental price increase for rapeseed, rather than the growing bio-diesel boom.

Local Development and Bio-diesel

While bio-diesel production using rapeseed as a feedstock is currently small, bio-diesel development has attracted attention from China's government and industry since 2006. According to CNGOIC, as of the end of 2006, there were 25 enterprises engaged in bio-diesel production with total producing capacity of 1.2 MMT. This is expected to reach 3 MMT at the end of 2007. Industry sources reported that a joint venture between Austria and Jiangsu Province with an annual capacity of 250,000 MT would be completed by the end of 2007. However, total bio-diesel production was only estimated at between 100,000 to 200,000 MT for 2006.

Expanding capacity faces serious problems due to a shortage of affordable vegetable oil, while current operation depends mainly on recycled waste oils. In November 2006, China's government published its general policy on assisting development of the bio-diesel industry. However, the detailed implementation measures have yet to be formulated. Given the increased vegetable oil price since 2006, the bio-diesel industry is likely to face serious challenges in the near future.

In Hubei, the provincial government attaches great importance to bio-diesel development and viewed it the new opportunity to rejuvenate the provincial rapeseed sector. In mid-2006, Hubei Provincial Development and Research Center, in collaboration with China's top rapeseed scientists submitted a report to the provincial government on "Development of Rapeseed Based Bio-diesel Industry in Hubei". The report indicated that the yearly rapeseed planted area averaged 1.16 MHA from 2001-2005 and production reached a record 2.2 MMT in 2004. Moreover, they believe that there is great potential in terms of planted area, yield and quality. Rapeseed planted area is likely to increase by 670,000 HA, without reducing planted area for other crops. The coverage of high quality varieties remains low (60 percent) and yield is likely to increase significantly from the current 1.8 MT per HA if new varieties are planted in combination with better agronomy practices. Total rapeseed crushing capacity is estimated at 5.0 MMT per year, with more than ten facilities exceeding 100,000 MT annually. The report called for more government support for rapeseed planting and a favorable policy for bio-diesel development. Hubei provincial authorities are very positive and believe that various initiatives can significantly increase area planted, improve yields, and strengthen local processors. The 2007 World Rapeseed Conference held in Wuhan, Hubei added further fuel to the provincial rapeseed planning. Local agriculture officials appear optimistic about increasing rapeseed area despite the falling production of the recent two years.

In Hunan, rapeseed planted area continued to shrink to 600,000 HA in MY07/08, from the averaged 740,000 HA in past years. Like Hubei, the land available for winter rapeseed planting in Hunan is also potentially high, but there were high levels of abandoned land due to low farmer returns. Local agriculture officials attribute the area decline to the increased imports of soybeans. Though Hunan is adjacent to Hubei, local authorities are less positive

as to the future of rapeseed planting. Their main concern is that farmers consider rapeseed a secondary crop with few advantages compared to winter wheat due to consistently low returns and significant labor demands. Partly due to this lack of future planning in Hunan, there are no rapeseed based bio-diesel plants. Nevertheless, Hunan industry experts viewed the high price for the current crop as a response to the expected low production and think this will support planted area next planting year.

According to industry sources, the cost of rapeseed-based bio-diesel is approximately US$190/MT higher than regular diesel. China's imports of vegetable oils (palm oil and soybean oil) are mainly for human consumption and remained strong at 6.9 MMT in MY05/06 (GAIN CH7012). The strong domestic demand for vegetable oils for human consumption will continue to restrict economically feasible rapeseed-based bio-diesel production. If the current high price for rapeseed continues, the area for rapeseed may return to the historical area of 7.5 MHA and total production at 13 to 14 MMT in next few years. However, the impact of bio-diesel on rapeseed production is unlikely to be significant unless the Chinese government provides additional support for crop-based bio-fuels.

Rapeseed production and soybean imports

The impact of China's rapeseed production on soybean imports is expected to be limited in the foreseeable future. China's soybean import growth is mainly driven by the growing demand for protein meal by the rapidly expanding and industrializing animal and aquaculture sectors. It is worth noting that the imports of vegetable oils and soybean imports have both remained strong. An increase of one million MT of rapeseed would add 350,000 MT of edible oil and 600,000 MT of meal. Though of rather limited impact, domestic rapeseed oil would most likely reduce soybean oil imports rather than soybeans due to the large capacity and efficiency of China's soybean crushing sector. An additional half million MT of rapeseed meal would account for about one percent of the estimated protein meal supply for MY07/08. Thus, it is quite unlikely that the growth of soybean imports will slow down dramatically because of the expected moderate rapeseed production growth.